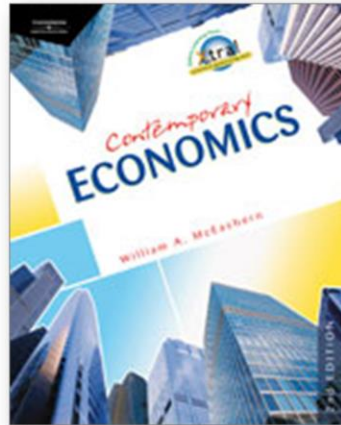


Contemporary **ECONOMICS, 2E**

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Contemporary Economics, 2nd Edition

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- ***Contemporary Economics*** brings economics to life with rich, practical examples that make concepts clear and intriguing.
 - Blends economic expertise and educational insights with comprehensive content, sound instructional design, and extensive print and media teaching tools.
 - Covers NCEE's National Content Standards in Economics completely and repeatedly.
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- 1) Standards based
- 2) Engages students in learning process with real world applications and learning aids throughout text
- 3) Written specifically for a high school class

Correlation to National Content Standards in Economics


Standard	Coverage In Contemporary Economics
1. Scarcity	Chapters 1, 2, 3, 4, 5, 8, 9, 12, 19, 20
2. Marginal Cost/Benefit	Chapters 1, 2, 3, 4, 5, 6, 8, 9, 10, 12, 14, 20, 21
3. Allocation of Goods and Services	Chapters 1, 2, 3, 19
4. Role of Incentives	Chapters 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 15, 16, 17, 18, 19
5. Gain from Trade	Chapters 2, 3, 6, 10, 11, 16, 18, 19
6. Specialization and Trade	Chapters 1, 2, 3, 5, 6, 7, 16, 18, 19
7. Markets—Price and Quantity Determination	Chapters 1, 2, 4, 5, 6, 7, 13, 18, 19, 20, 21
8. Role of Price in the Market System	Chapters 4, 5, 6, 9, 20, 21
9. Role of Competition	Chapters 3, 6, 7, 8, 12
10. Role of Economic Institutions	Chapters 2, 3, 7, 8, 9, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 21
2 Contemporary Economics	



Covers standards completely and repeatedly.



Jump\$tart Standards



Correlated to Jump\$tart Coalition's National Standards in Personal Finance!

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Correlation to Jump\$tart Coalition's National Standards in Personal Finance

Standard	Coverage in Contemporary Economics
1. Income	Chapters 3, 4, 13, 14, 15, 20
2. Money Management	Chapters 1, 4, 16, 20, 21
3. Spending and Credit	Chapters 1, 2, 16, 17, 20,
4. Saving and Investing	Chapters 10, 11, 16, 17, 20, 21

Chapter 16 Money and Banking
Chapter 17 Money Creation, the Federal Reserve System, and Monetary Policy

"This is great – students enjoy reading about entrepreneurs, especially those who started when they were teenagers – also there is a direct relationship to the economic concepts and to students' interests."
– Lee Marcoux
Adjunct Professor, Post University
Waterbury, Connecticut

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Contemporary Economics 2nd edition is also correlated to JumpStart Coalition's National Standard in Personal Finance – in addition two new chapters have been added on Personal Finance. Better yet, there are 28 lessons found on our companion website for this book and These lessons and answer solutions are directly aligned to the JumpStart Coalition's National Standards in Personal Finance!!! They cover topics like budgeting, investing, taxes, jobs and careers, homeownership, and managing credit.

Notice that the definition of demand includes the other things constant assumption. (A Latin phrase you may have for "other things constant" is *ceteris paribus*.) Among the "other things" assumed to remain constant are the prices of other goods. For example, if the price of pizza declines while other prices remain constant, pizza becomes relatively cheaper. Consumers are more willing to buy pizza when its relative price falls. People tend to substitute pizza for other goods. This is called the **substitution effect** of a price change. On the other hand, an increase in the price of pizza, other things constant, causes consumers to substitute other goods for the now higher-priced pizza, thus reducing their quantity of pizza demanded. Remember that the change in the relative price of other goods causes the substitution effect. If all prices changed by the same percentage, there would be no change in relative prices and no substitution effect.

Income Effect
A fall in the price of a product increases the quantity demanded for a second reason. If you take home \$30 a week from a Summer job, your money income is \$30 per week. Your money income is simply the number of dollars your income can purchase in a given period. In this case \$30 per week. Suppose you spend all your income on pizza, buying four a week at \$6 each. What if the price drops to \$4 so that you can now afford six pizzas a week?

Your money income remains at \$30 per week, but the decrease in the price has increased your real income—that is, your income measured in terms of how many goods and services it can buy. The price reduction, other things constant, increases the purchasing power of your income, thereby increasing your ability to buy pizza and, indirectly, other goods. The quantity of pizza you demand likely will increase because of this income effect of a price change. You now are in income (your spending) demand for the pizza. You can now afford six. If you purchase five pizzas a week when the

price drops to \$4, you would still have left to buy other goods.

Thus, the income effect of a lower price increases your real income and thereby increases your ability to purchase pizza and other goods. Because of the income effect of a price decrease, other things constant, consumers tend to increase their quantity demanded as the price decreases. Conversely, as income in the price of pizza, other things constant, reduces real income, thereby reducing the ability to purchase pizza. Because of the income effect of a price increase, consumers typically reduce their quantity demanded as the price increases.

Diminishing Marginal Utility

After a long day at school, studies, and sports, you are starved, and so you visit a local pizzeria. That first slice tastes great and puts a serious dent in your hunger. The second is not quite as good as the first. A third is just fair. You don't even consider a fourth slice. The satisfaction you derive from an additional unit of a product is called your **marginal utility**. For example, the additional satisfaction you get from a second slice of pizza is your marginal utility of that slice. The marginal utility you derive from each additional slice of pizza declines as your consumption increases. Your experience with pizza reflects the **law of diminishing marginal utility**. This law states that the more of a good an individual consumes per period, other things constant, the smaller the marginal utility of each additional unit consumed.

Diminishing marginal utility is a feature of all consumption. A second

Diminishing Marginal Utility

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Diminishing marginal utility is a feature of all consumption. A second

marginal utility

The change in total utility resulting from a one-unit change in consumption of a good

law of diminishing marginal utility

The more of a good a person consumes per period, the smaller the increase in total utility from consuming one more unit, other things constant

Every key term is highlighted in the text and defined in the margin.



Lessons 4.1 The Demand Curve

A full Spanish Glossary is available in the Appendix



• Sharpen Your Skills

- Help students learn skills such as interpreting graphs which reinforces knowledge of economics

Sharpen Your Skills

Draw Conclusions

Demand for many products can be affected by a single important event. In September 2002, for example, Hurricane Isadore plowed into the southern coast of Louisiana, leaving widespread destruction in its wake. Thousands of homes were destroyed along with many businesses, roads, and public buildings.

Consider how this disaster must have changed people's demand for goods and services in Louisiana. Divide the following businesses into two lists: one made up of firms that would have had increased demand for their products because of Isadore, the other of businesses that would have experienced reduced demand. Explain your placement of each business.



Apply Your Skill

Imagine that the United States mobilizes its military forces to fight a war in a foreign country. It calls up 250,000 reserve soldiers and increases its purchases of military equipment. Many factories operate 24 hours a day to keep up with government orders. Describe several ways in which this would shift demand for products in the U.S. economy.

- building contractors
- swimming pool installers
- luxury hotels
- apartment buildings
- lumber yards
- amusement parks



A variety of interactive elements integrated within the lessons keep students engaged... such as the **Online Graphing Workshop** that provides interactive graphing instruction using “See It, Try it, Apply it”

For some goods, the drop in marginal utility after the first unit is dramatic. For example, a second copy of the same daily newspaper would likely provide you with no marginal utility. In fact, the design of newspaper vending machines relies on the fact that you will not want to take more than one.

More generally, the expressions “been there, done that” and “Same old, same old” convey the idea that, for many activities, things start to get old after the first time. Your marginal utility, or marginal benefit, declines.

✓ CHECKPOINT

Explain the law of demand in your own words.

Demand Schedule and Demand Curve

Demand can be expressed as a *demand schedule* and as a *demand curve*. Panel (a) of Figure 4.1 shows a hypothetical demand schedule for pizza. When you

TeamWork

In small groups, brainstorm a list of products that most members of the group consume in a typical week. Then, working on your own, apply the law of diminishing marginal utility to each item. How many units of each item would you consume before the marginal benefit is less than the price of each unit? Compare your answers with those of other group members.

describe demand, you must specify the units being measured and the period considered. In this example, the price is for a 12-inch regular pizza and the period is a week. The schedule lists possible prices, along with the quantity demanded at each price.

At a price of \$15, for example, consumers demand 8 million pizzas per week. As you can see, the lower the price the greater the quantity demanded, other things constant. If the price drops as low as \$5, consumers

The Graphing Workshop

Demand Schedule and Demand Curve for Pizza

Figure 4.1

thomsonedu.com/school/econextra

(a) Demand schedule

	Price per Pizza	Quantity Demanded per Week (millions)
a	\$15	8
b	12	14
c	9	20
d	6	26
e	3	32

Market demand curve D shows the quantity of pizza demanded, at various prices, by all consumers.



Lesson 4.1 The Demand Curve

OUR FOCUS
YOU! **Numerous Special Features** CENGAGE Learning

The collage features six distinct boxes representing special features. 'TeamWork' has a green and yellow background with interlocking circles. 'CHECKPOINT' has a yellow and black header with a checkmark icon and a text prompt. 'e-conomics' has a white background with a red 'e' and a dotted line. 'In the News' has a blue background with a white lightning bolt icon. 'movers + shakers' has a yellow background with a red plus sign. 'Span the Globe' has a green background with a globe icon. The bottom of the collage has an orange bar with publisher information and a small photo of students raising their hands.

TeamWork

✓ CHECKPOINT
Explain the law of demand in your own words.

e-conomics

In the News

movers + shakers

Span the Globe

South-Western | Delmar | Course Technology

TeamWork offers in-class collaborative activities—students work in small groups while developing economic knowledge

e-conomics focuses on e-commerce with critical-thinking—presenting the economic principles at work in cyberspace

Movers + Shakers introduces individuals who have made a significant impact on economics with their entrepreneurial ideas

In the News examines the economic concepts behind everyday new articles

Span the Globe brings an international focus to economic principles as students look at global interactions and their impact on local, regional, and national economies

• Movers and Shakers

- Introduces individuals who have made a significant impact on economics with their entrepreneurial ideas

• Checkpoints

- Provide opportunities throughout the chapter for informal evaluation of learning



movers & shakers

John Schnatter *founder, Papa John's*

During high school and college, John Schnatter earned spending money by working part-time in restaurant jobs. He noticed something missing from every one of them: No one was making a superior-quality pizza that could be delivered directly to the customer. He dreamed of one day opening his own pizza restaurant, doing everything right.

In 1984, Schnatter graduated from Ball State University with a degree in business administration and returned home to Evansville, Indiana. There he laid the first step to introducing the world to his own superior pizza. First he knelt and a brown crust at the rear of the father's business. Then he sold his beloved 1972 Camaro to buy \$1,000 worth of used restaurant equipment, including his first pizza oven. The first Papa John's restaurant opened in 1985. Less than twenty years later, 3,200 Papa John's restaurants operate in 48 states and 22 countries.

Schnatter's successful business philosophy is to focus on one thing and do it better than anyone else. He keeps the menu simple and uses only superior-quality ingredients. He insists on using fresh (never frozen) water-purified traditional dough, also called "hand-rolled" tomato sauce, and 100 percent mozzarella cheese.

For four consecutive years, Papa John's was rated number one in customer satisfaction among all national fast-food restaurants in the American Customer Satisfaction Index. Papa John's also was voted number one in product quality in the Restaurant & Institutional Dining in China consumer survey and in service excellence in 2005.

SOURCE READING
Analyze the quotation attributed to John Schnatter. From these statements, what qualities do you think he possesses that make him a successful entrepreneur?

ENTREPRENEURS IN ACTION
In an effort to grow, Papa John's Board of Directors, with one member portraying Schnatter, the company's largest and most competitive franchisee, and one member portraying a management team, is in the process of deciding whether to open new restaurants. Discuss the steps management needs to take in order to lead the company's growth.

✓ CHECKPOINT

Explain the law of demand in your own words.

• Ethics in Action

- A close look at economic ethical dilemmas that encourages student input

• In The News

- Examines the economic concepts behind everyday news articles

▶ ETHICS IN ACTION

Workers' Compensation

All across the nation, the cost of workers' compensation insurance has been spiking upward at a frightening rate. A seafood wholesaler in Los Angeles saw rates climb 68 percent in one year to almost \$7,000 per employee. Most insurance costs have risen for companies in the past few years, but "workers' comp," as it is often called, is a major problem because firms have little control over cost increases. By law, companies must provide workers' compensation insurance, which pays for medical treatment for job-related injuries and for wages lost as a result of those injuries. Because every employee must have such insurance, the only way a company can reduce this cost is to eliminate employees or try to create a safer work environment so fewer workers are injured on the job. Increased insurance costs have caused both large and small companies to lay off workers,

and—in many cases—it has forced them out of business. The main reasons for the sharp increases in workers' comp costs are soaring medical and legal costs, and fraud. Some workers may fake injuries or stay out of work longer than necessary. In some cases, unethical doctors, chiropractors, and lawyers work together to cheat the system. Companies also may manipulate their employee reports and downplay the dangers involved in the work that's being done in order to pay less than they should.

THINK CRITICALLY

What are the ethical issues involved with workers' compensation insurance? How does the increase in workers' compensation insurance affect a firm's long-run average cost curve?

Source: www.mfml.com/2003/06/23/business/22COMB.htm

In the News

■ Toys and Games Are Not Fun and Games for Suppliers

It seems like every year there is a new toy released for Christmas that becomes the must-have gift of the season. It began in 1985 with the Cabbage Patch Doll. A decade later came Tickle Me Elmo. The result was long lines, sellouts, and consumer frustration. The 2005 version of the Christmas toy story starred Microsoft's Xbox 360. Because Xboxes take time to develop and manufacture, Microsoft faced challenges trying to supply enough to meet the past December demand. So while Microsoft had about half a million Xboxes on hand, this still was not enough to meet consumer demand, and stores quickly sold out. Economic theory suggests that the Xboxes were priced too low. A higher price would have reduced quantity demanded, and Microsoft would have made more profit. During the Christmas season, while Xboxes were being sold in stores for \$300, they were being offered on eBay for \$700. So why did Microsoft keep its price at \$300?


THINK ABOUT IT

Economist Tim Harford, author of *The Underground Economist*, posed this problem and received a number of explanations. Some analysts suggested that the shortage was a deliberate attempt by Microsoft to limit supply. Harford rejects this explanation because the advantage of limiting supply is negated if Microsoft doesn't raise the price. What other explanations might there be?

Sources: "The Covered Silliest Situation: Toy-makers Tinker with the Balance of Supply and Demand," *Washington Post*, December 23, 2005; Tim Harford, "Economic Explanations: The Great Xbox Shortage of 2005," *Slate*, December 15, 2005; www.slate.com; Tim Harford, "Economic Explanations: Xbox Economics, Part 1," *Slate*, December 21, 2005; www.slate.com

• e-economics

- Focuses on e-commerce with critical-thinking; presenting the economic principles at work in cyberspace



iPod EXPLOSION SPREADS

France's minister of culture is pleading to outlaw them. A report last fall alleged that iPods provide stimuli at more than 115 decibels, a level that can damage a person's hearing if exposed for more than 20 seconds per day. Nonetheless, iPod sales are booming. The most recent quarterly sales figures showed 14 million sold in comparison to 4.1 million in the same quarter of the previous year. Of the 14 million sold, 8 million were of the new video iPod introduced in October of that quarter. Buoyed by iPod sales and music sales from iTunes, profitability of more than 950 million songs, 60 percent of the legal downloaded material, the iPod maker Apple Computer, Inc., reported revenue of \$5.7 billion in the fourth quarter of 2005.

THINK CRITICALLY

With the surging sales of the iPod and related products, Apple has shifted from being a niche supplier of computers to the dominant seller of portable media devices. Do you think Apple will continue to enjoy such success? Why or why not?

Source: Mike Kohn, "Can The Music Store Still Live and Sleep America's Favorite the iPod?" PC World and, February 5, 2006, "Apple's iPods: The iPod's Success in France," Agency France Presse, January 16, 2006.

• TeamWork

- Offers in-class collaborative activities—students work in small groups while developing economic knowledge



TeamWork

Working in small groups, think of five industries other than those given as examples in Section 5.1 of this textbook. For each industry, describe the product or services sold, as well as the means of distribution, such as retail stores, online, or wholesale. Rank these industries in order of the time the industry needs to adjust to a price change. Give a ranking of 1 to industries that would require the least amount of time to adjust fully to a price change and a 5 to those that would require the most time. Provide an explanation for each of your rankings. Discuss your group's rankings in class.



• Span the Globe

- Provides an international focus to economic principles as students look at global interactions and their impact on local, regional, and national economies

• Connect to History

- Explores how economic principles relate to American history, for a strong cross-curricular emphasis

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Span the Globe

Mongolian Goats and the Price of Cashmere Sweaters

Think there's a connection between the \$500 price tag on that lustrous cashmere sweater and a herd of Mongolian goats? You bet there is. Cashmere comes from the hair of cashmere goats, the majority of which are raised in Mongolia and northern China. Although those regions have a lot of goats, each one yields only about 2 1/2 pounds of fleece per shearing. That 2 1/2 pounds, in turn, produces only about 5 ounces of usable cashmere fiber after the labor-intensive job of cleaning and de-hairing. Consequently, the price of the warmer, softer cashmere usually is far higher than its competitor, wool. In past years, Mongolia's exports of this unique product have grown dramatically. Mongolian cashmere exports totaled around 2,000 tons in 2002 and have risen to more than 2,800 tons projected for export in 2006. The number of goats has increased in turn, from 10 million in 2002 to near 13 million in early 2006. Unfortunately for the Mongolian producers, the price of cashmere currently

Invest \$20
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\$12 price

CONNECT TO HISTORY

The Industrial Revolution in England: The Demand for Cotton

The Industrial Revolution began with England's textile industry in the late 1700s and 1800s. Cotton had been limited to the United States in 1793, when it was introduced to Europe from India. Although early cotton in the British world, there, and still continues, to produce more than enough for use. The revolution began in 1789, when James Hargreaves changed the long-drawn cotton thread and the cotton. The revolution in the printing of cotton manufacturing in the West.

The new range of manufacturing cotton textiles was spinning and weaving. Specifically these were new ones in the form to make an efficient cotton textile as mentioned in Chapter 3. The new range of cotton textiles in the form to make an efficient cotton textile as mentioned in Chapter 3. The new range of cotton textiles in the form to make an efficient cotton textile as mentioned in Chapter 3.

Edward Carnegie's great-grandfather, a 17th-century Scottish immigrant, was a cotton merchant in Glasgow. He was one of the first to import cotton from the United States to Europe. He was one of the first to import cotton from the United States to Europe. He was one of the first to import cotton from the United States to Europe.




A cotton gin

L10124 6.3 Changes in Demand 123

- **In the News**

- Examines the economic concepts behind everyday news articles

Supply and Demand

In the News

■ Toys and Games Are Not Fun and Games for Suppliers


It seems like every year there is a new toy released for Christmas that becomes the must-have gift of the season. It began in 1985 with the Cabbage Patch Doll. A decade later came Tickle Me Elmo. The result was long lines, sell-outs, and consumer frustration. The 2005 version of the Christmas toy story starred Microsoft's Xbox 360. Because Xboxes take time to develop and manufacture, Microsoft faced challenges trying to supply enough to meet the peak December demand. So while Microsoft had about half a million Xboxes on hand, this still was not enough to meet consumer demand, and stores quickly sold out. Economic theory suggests that the Xboxes were priced too low. A higher price would have reduced quantity demanded, and Microsoft would have made more profit. During the Christmas season, while Xboxes were being sold in stores for \$300, they were being offered on eBay for \$700. So why did Microsoft keep its price at \$300?

THINK ABOUT IT


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The In the News feature examines the economic concepts behind everyday new articles.

There is one In The News feature that discusses the percentage of women attorneys who are choosing to leave large law firms.



End-of-Lesson Assessment



• Assessment

- Ends every lesson, allowing you to evaluate student progress and comprehension

• Xtra! Study Tools

- A safe online portal for students to gather real data for analysis and provides current Web links for textbook activities
- Online interactive game-like reviews for every lesson such as *Beat the Clock*, *Sort It Out*, *Scenario*, *First Things First*, and more.

Assessment
33

Key Concepts

1. In 2002, there was a debate over whether smallpox vaccinations should be given to the general public. Are vaccinations an example of a public good. Why or why not?
2. Identify and describe an example of each of the following types of goods that you encounter in your life.
 - a. Private good
 - b. Quasi-public good
 - c. Open-access good
 - d. Public goods
3. Describe an example of a negative externality that has been a problem in your community.
4. Describe steps that have been taken in your community to try to eliminate or reduce the negative externality you identified in exercise 3 above.

Graphing Exercise

5. Construct a pie chart for 1990 and another for 2000 that show federal spending on natural resources and the environment. Base your charts on the data in the table. What parts of this spending may have been dedicated to trying to reduce negative externalities?

Type of Spending	1990	% of total	2000	% of total
Water resources	\$ 4.4	25.7%	\$ 5.1	20.6%
Conservation	3.6	21.1	5.9	23.8
Recreation	1.9	11.3	3.4	13.7
Pollution control	5.2	30.4	7.4	29.8
Other	2.0	11.7	3.0	12.1
Total	\$17.1	100.0	\$24.8	100.0

Source: Statistical Abstract of the United States, 2001, p. 301.

Think Critically

6. **Government** Determine the open-access goods that exist in your county or state. Investigate whether the county or state government regulates these goods. If they do, what are the regulations? If not, why do you think these goods are not regulated?
7. **Business Management** Although trucks powered by natural gas are expensive to purchase, they create little pollution when they are operated. Why do you think this is an effort by these businesses to reduce negative externalities? Do you think this is a good idea?

Assessment ends every lesson, and allows for frequent evaluation of student comprehension and progress.

The assessment section covers basic understanding through critical thinking applications. Xtra study Tools is a feature that students can access online. It provides interactive game-like reviews for every lesson, such as *Beat the Clock*, *Sort it Out*, *Scenario*, *First Things First* and more! There is also a Quiz Prep feature that they can access online as well. The Quiz Prep provides online chapter review and immediate feedback for students to assess their understanding. There is even the option to email your teacher the results. That way, you can assign the quiz prep for homework before a big test.

3

Chapter Assessment

Summary

3.1 The U.S. Private Sector

- a. There are four groups of decision makers in the U.S. economy: households, firms, government, and the rest of the world.

- b. Firms expanded their importance in the economy during the Industrial Revolution. By gathering factors of production into one location, businesses are able to create a more efficient division of labor.

- c. Decisions made by the rest of the world affect the consumption and production of U.S. households. The United States buys goods from other nations that have lower opportunity costs of production and sells goods that have lower opportunity costs to U.S. producers.

3.2 Regulating the Private Sector

- a. The private sector of the U.S. economy would not run smoothly without some government regulation. Economic rules created and enforced by the government set standards for quality and weights and measures, and protect property rights and consumer safety.
- b. The federal government promotes competition in the market and limits monopoly power through enforcing antitrust laws and regulating natural monopolies.

- c. The government promotes economic growth and stability through fiscal and monetary policies. Fiscal policy uses taxes and public spending to influence economic conditions. Monetary policy adjusts the amount of money in the economy to influence interest rates, borrowing, spending, and production.

3.3 Public Goods and Externalities

- a. All goods can be classified as private goods.

- b. Public goods are nonrival and nonexclusive. If a public good is used by one person, that does not prevent another from benefiting from using it.

- c. Quasi-public goods are nonrival but exclusive. The use of a public park by one person does not prevent others from enjoying it, too, unless it becomes very crowded. The government, however, may impose a fee to enter the park, which makes it exclusive for those who choose to pay.

- d. Open-access goods are rival but nonexclusive. If you collect seashells at the beach, the shells you gather cannot be collected by others, but you are free to collect as many as you can find.

- e. Negative externalities are costs of production that are imposed on people who are neither the producer nor the consumer of the product.

3.4 Providing a Safety Net

- a. In a pure market economy, people would receive income in proportion to the value of their contribution to production. Individuals unable to work could fall into poverty and starve. The U.S. government provides social services for those who otherwise might live in poverty.

- b. The official poverty rate in the United States declined in most years since the government began to measure poverty. Poverty is most common among households headed by single mothers.

- c. The government has established many programs to help specific groups of people. Among these are social insurance programs, income-assistance programs, the earned-income credit for federal income tax, and in-kind transfers.

- d. The nation's welfare programs were re-formed in 1996, when the Temporary Assistance for Needy Families Program was created.

Review Economic Terms

Choose the term that best fits the definition. On a separate sheet of paper, write the letter of the answer. Some terms will not be used.

1. The satisfaction received from consumption
2. Laws that prohibit anticompetitive behavior and promote competition
3. Legal claims that guarantee an owner the right to use a good or resource exclusively or to charge others for its use
4. The federal government's use of taxing and public spending to influence the national economy
5. The Federal Reserve System's attempts to control the money supply to influence the national economy
6. One firm that can serve an entire market at a lower per-unit cost than can two or more firms
7. A good with two features: (1) the amount consumed by one person is unavailable to others and (2) nonpayers can easily be excluded
8. A good that, once produced, is available for all to consume, but the producer cannot easily exclude nonpayers
9. A good that is rival in consumption but exclusion is costly
10. By-products of consumption or production that benefit third parties, who are not buyers or sellers

- a. antitrust laws
- b. firm
- c. fiscal policy
- d. household
- e. income-assistance programs
- f. Industrial Revolution
- g. median income
- h. monetary policy
- i. natural monopoly
- j. negative externalities
- k. open-access good
- l. positive externalities
- m. private good
- n. private property rights
- o. public good
- p. quasi-public good
- q. social insurance
- r. utility

Review Economic Concepts

11. All those who live under one roof are considered to be part of the same _____.
 - a. Revenue = Profit - Cost of Production
 - b. Profit = Cost of Production - Revenue
 - c. Profit = Revenue - Cost of Production
 - d. Cost of Production = Revenue + Profit
12. Firms organizing production in large, centrally powered factories did all of the following except
 - a. promote a more efficient division of labor.
 - b. reduce transportation costs.
 - c. reduce consumer reliance on trade.
 - d. enable the use of specialized machines.
13. In the evolution of the firm, the _____ was the bridge between the self-sufficient farm household and the modern firm.
14. Which of the following is correct?
 - a. Revenue = Profit - Cost of Production
 - b. Profit = Cost of Production - Revenue
 - c. Profit = Revenue - Cost of Production
 - d. Cost of Production = Revenue + Profit
15. True or False International trade occurs because the opportunity cost of producing specific goods differs among countries.
16. Alvin _____ awards an inventor the exclusive right to produce a good for a specific period of time.

17. Which of the following is not a true statement about monopolies?
- Monopolies try to charge higher prices than would result through competition.
 - By maximizing profits, monopolies ultimately benefit social welfare.
 - Antitrust laws attempt to reduce monopoly power.
 - Monopolies may try to influence the political system in order to protect and enhance their power.
18. Which of the following is the best example of the government regulating a natural monopoly?
- emission standards for automobiles
 - required testing and approval to market new drugs
 - rules for selling new shares of corporate stock
 - set prices for distributing natural gas to homes
19. True or False: Public goods can be used by all consumers and have no economic cost.
20. ... are nonrival but exclusive, such as cable TV signals.
21. True or False: Poverty is a relative term that has different meanings at different times and in different locations.
22. Which of the following would be an example of an attempt by the Federal Reserve System to stimulate the economy through monetary policy?
- a 5 percent reduction in federal income tax rates
 - an increase in government spending for road construction
 - an increase in the amount of money in the economy
 - an increase in the tax on goods purchased from other countries
23. Another term for welfare is
- job-placement program.
 - income-assistance program.
 - social insurance program.
 - tax rebate program.

Apply Economic Concepts

24. Identifying Goods Copy the figure below. Place the letter of each of the following in the correct box of the figure.
- Police protection
 - Shrimp in the ocean
 - Public vaccinations
 - Picnic tables in a national park
 - Your television set
 - An unused public tennis court
 - Seashells on a beach
 - Your uncle's fishing boat

	Rival	Nonrival
Exclusive		
Nonexclusive		

25. Examples in Your Community Make a second copy of the figure in exercise 24. Place two examples of each type of good that exist in your community in the appropriate boxes. Use examples that are different from those in exercise 24.

26. Your Share of the Cost In 2001, the cost of national defense for the United States was just over \$300 billion. At that time, there were approximately 280 million people living in this country. Calculate the cost of national defense per person in 2001. Explain why it is difficult to charge individuals their "fair share" of the cost of national defense.

27. Sharpen Your Skills—Use Mathematics to Draw Conclusions In 2001, the value of total production in the United States was \$10.442 trillion. In that year, the federal government spent or transferred \$1.864 trillion. What percent of the nation's total income flowed through the federal government in 2001? The table below shows the experience over a longer period. On a separate sheet, fill in the right-hand column. What has been the trend over the period? What do these data show about the importance of federal government spending and transfers in the economy in these years? Considering recent history, would you expect this trend to continue in the future?

Government Spending and Transfers as a Percent of Total Production, 1980–2000
Values in billions of dollars

Year	Federal Government Spending and Transfers	Value of Total Production	Federal Spending Is Transfers as a Percent of Total Production
1980	\$ 590.9	\$2,795.8	_____
1990	\$1,253.1	\$5,803.2	_____
2000	\$1,789.2	\$9,963.1	_____

Source: Statistical Abstract of the United States, 2006, Table 409.

e-con apps thomsonedu.com/school/econextra

28. Access EconData Online at thomsonedu.com/school/econextra. Under "Microeconomics," click on "Income Distribution and Poverty," and then "Civilian Unemployment Rate." Alter

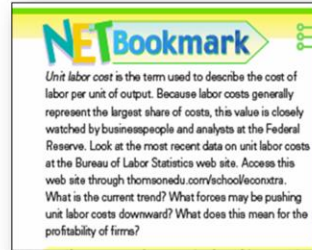
analyzing the information available, write a paragraph to explain why the unemployment rate is inversely related to the growth rate of real GDP over the business cycle.

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• The Graphing Workshop

- Includes animated tutorials that guide students through explanations of the economic concepts behind the graphs. Students then prepare their own graphs using GraphIt.

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jump to:

Video 1:

What are the four types of unemployment?

Video 2:

Is one type of inflation worse than another?

"What are the four types of unemployment?"

Economists categorize unemployment into several types. These are seasonal, structural, frictional, and cyclical. Cyclical unemployment is related to a weak economy and is associated with recession. A frequently used definition of full employment is the absence of cyclical unemployment. Perhaps surprisingly, this definition implies that some seasonal, structural, and frictional unemployment are consistent with full employment.

The Graphing Workshop

The Supply of Pizza

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What does “The Watch” include? The watch includes 3 pieces.

1. a blog written by a financial journalist updated multiple times daily;
2. Gale Issues in Context database, which includes hundreds of periodicals, newspapers, podcasts and videos, updated 4 times a day.
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The first part of the Global Economic Watch online portal includes the blog. This blog is written by a financial journalist, includes some interesting, and often fun, content from blogs and news sources around the world. It is updated multiple times throughout the day.

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About The Author
Meghan O'Meara is managing editor of Global Issues in Context. She believes the world would benefit from people listening more and talking less. She personally practices this belief with only moderate success, but strives to make Speaking Globally much more successful.

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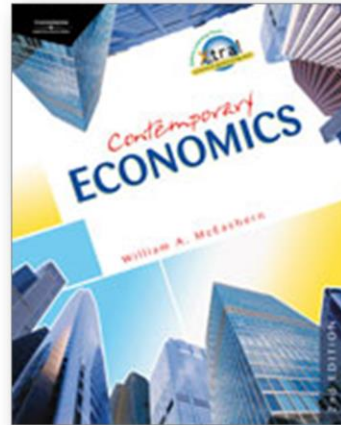
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